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IBANESS
University "St. Kliment Ohridski" Faculty of Economics/Macedonia
University of Agribusiness and Rural Development/Bulgaria

PROCEEDINGS

Editors
Prof.Dr. Dimitar NIKOLOSKI
Prof.Dr. Dimitar Kirilov DIMITROV
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FOREWORD

International Balkan and Near Eastern Congress Series brings together many distinguished social and behavioral science researchers from all over the world. Participants find opportunities for presenting new research, exchanging information, and discussing current issues.

We are delighted and honored to host the IBANESS Congress Series in Ohrid / Macedonia. Presented papers have been selected from submitted papers by the referees. Sincere thanks to those all who have submitted papers.

We hope that through exchange of the presented researches and experiences, the Congress will enhance communication and dissemination of knowledge in Balkan and Near Eastern Countries.

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EU Regional Policy and Pre-Accession Support for The Republic of Macedonıa

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Abstract: For much of the past years, the EU has simultaneously pursued the incentive of deeper integration and enlargement, thus becoming a unique economic and political partnership between 28 European countries. Enlargement serves as an impetus for political and economic reforms that moves in steps which are largely determined by the candidate countries' respect for the Copenhagen criteria and their ability to take on the obligations of membership. Meeting the accession criteria entails considerable efforts in terms of public investment and access to knowledge and expertise. In the past, the EU has supported the candidates and potential candidates with technical and financial help through a number of separate instruments. Since 2007, the EU pre-accession funding has been guided through a single instrument, the Instrument for Pre-Accession Assistance (IPA). Important element of the IPA funds is the resource available for EU regional (cohesion) policy that stands for an important policy tool to preserve some of the EU keystones, viz. the single market and the common currency. That is to say, the last three IPA (2007-2013) components have been intended to mirror closely structural, cohesion and rural development funds permitting the beneficiaries to prepare themselves for effective implementation of the EU cohesion policy after accession. Hence, this analytical paper aims at presenting a systematic overview of the EU regional (cohesion) policy, i.e. the rationale for such policy from a theoretical perspective, as well as its origins and historical patterns. With special reference to absorption capacity, the paper will subsequently assess the pre-accession support provided to Macedonia as a candidate country for EU membership.

Keywords: EU regional policy, pre-accession assistance, Macedonia

1. Introduction

Since the very beginning of European integration, the founding members have placed special emphasis on regional disparities. Even the preamble to the Treaty of Rome mentions the necessity "to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions". Successive enlargements have additionally transformed the European Union (EU) into a heterogeneous group of countries with substantial regional inequalities. It is against this background that EU regional policy has been gradually shaped and improved. EU regional policy represents an investment policy tool that promotes competitiveness, economic growth, job creation and better quality of life. This policy acts as a greatest expression of EU solidarity aiming to reduce the substantial economic, social and territorial imbalances that still exists between the Europe's regions. The persistence of these disparities may challenge some of the EU's keystones, such as the huge single market and its currency, the euro. If one adds the necessity for EU to remain globally competitive, it is clear why more than a third of EU budget is allocated to financial instruments (Structural Funds and the Cohesion Fund) that support EU regional policy (also referred to as cohesion policy).

At the same time as the 2006 structural funds reform, a new structure for programming and delivery of support was adopted so as to ensure greater efficiency and coherence of Union's external aid. As of 2007, the EU pre-accession funding has been funneled through a single instrument and legal framework, i.e. the Instrument for Pre-accession Assistance (IPA) that has replaced the earlier programmes and instruments (PHARE, PHARE CBC, ISPA, SAPARD, CARDS and the financial instrument for Turkey) and has covered both candidate and potential candidate countries. The EU supports beneficiaries in their progressive alignment with the standards and policies of the European Union, including where appropriate the acquis communautaire (European legislation), with a view to membership. IPA is envisioned to support candidates and potential candidates in meeting the accession criteria and provides for the enlargement process to develop as smoothly and successfully as possible. Financing under IPA 2007-2013 has been provided through five components, such as: transition assistance and institution building, cross-border cooperation (CBC), regional development, human resource development and rural development. The last three components, opened to candidates only, have been designed to reflect closely the structural, cohesion and rural development funds. Benefits from these components are considered to be experience for management of such funds upon accession. They prepare the beneficiaries for successful participation in the EU cohesion and rural development policies. Hence, this paper has two major objectives: 1) to exhibit an overview of the key patterns of EU regional policy; 2) to outline the importance of the *de facto* "external" instruments for economic and social cohesion (IPA in the medium-term financial perspective 2007-2013) for Macedonia as a candidate country for EU membership. Hereby, the paper will address the notion of absorption capacity and experience of the country in this respect. To effectively respond the stated objectives, it is organized as follows: two parts are devoted to EU regional policy both from a theoretical perspective, origins and evolution. The other two parts assess the general architecture for EU pre-accession support, with a special reference to the Republic of Macedonia as a beneficiary due to its candidate country status.

2. EU regional policy in a theoretical perspective

The European Union aims at improving efficiency and spurring economic growth by integrating the markets of goods and production factors. Nevertheless, the profits arising from efficiency are not evenly distributed among partakers in freely competing markets. In other words, "the structural changes implied (relocation of economic activities, changing composition of sectoral activity) have negative consequences for certain sectors of society. The most vulnerable groups tend to be concentrated, on one hand, in particular regions or even countries (regional dimension) and, on the other, in particular sectors of the labor force (social dimension). The EU has taken it upon itself to redistribute funds so as to help these groups to adapt to the new situation. It considers that in this way the cohesion of its constituent parts will be improved" (Molle, 2006). Cohesion is a concept difficult to define. In principal, it means a degree to which disparities between regional or social groups are still acceptable from the social, moral, and above all, political point of view. In this context, the principal objective of the common regional policy is to reduce the existing regional disparities and to prevent further regional imbalances in the EU by transferring European resources to problem regions. Yet, noteworthy is to mention that these aims reveal different theoretical approaches. That is to say, the economist views on the necessity of development policies to tackle disparities have called forth the two opposite streams in the field: the theories of convergence and divergence.

The convergence theory looks over the reasons for diminishing disparities between regions. It "claims that the economic integration is likely to contribute to the channeling of investment and innovation from core regions to areas with lower labour costs and to fostering migration from the periphery to the core. The free flow of production factors under the market rules will ultimately result in the economic convergence. Therefore, from this point of view, the economic integration will contribute *per se* to the reduction of economic disparities across the EU, making the need for a development policy almost redundant" (Gang, 2012). In principle, theories stemming from neoclassical paradigm are stacked on the side of convergence. Within the neoclassical growth framework, the output (GDP) of a country is contingent upon the endowments of input factors (labor and capital) and total factor productivity. This theory rests on the assumptions of perfect competition and exogenous technology. In this context, although the neoclassical growth model claims that growth in output per capita is driven by the rate of technological progress, the causes of such progress are not identified in the model. As a matter of fact, it has been found that the unexplained residual in the neoclassical models, labeled "technological change" or "total factor productivity", accounts for between 30% and 50% of total growth in different countries (Farole, Rodríguez-Pose, & Storper, 2009).

Unlike the convergence, divergence theory claims that market does not assist convergence. That is to say, the broader European market strengthens the polarization of pre-existing economic activities and thus contributes towards accelerating the agglomeration and concentration of economic activities. As the completion of internal market may further widen the existing disparities in the distribution of economic activities throughout the EU, some measures have been necessary to implement at national and European level (Europedia, 2011). Indeed, several development economists (e.g. Myrdal, 1957) accentuated the option that economic activity had "circular and cumulative" geographical patterns, making the prosperous places stronger and causing them to diverge from lagging-behind areas. "Myrdal's cumulative causation theory predicated that developed regions would continue prospering in a virtuous circle of production and wealth, generating more of the same…In contrast, underdeveloped regions would not develop and even decline due to negative causalities" (FAO/WB, 2009). The theory of economic geography (Krugman & Venables, 1990) has maintained the regional disparities following the idea that the level of convergence, under imperfect single market, is determined by transportation and transactions costs. "Krugman (1991a, 1991b) developed a core/periphery model, arguing that, in fact, the agglomeration of activities through cumulative causation and imperfect competition intensifies regional disparities" (FAO/WB, 2009). Nevertheless, he contends that such inequalities may possibly diminish under new market conditions and be corrected by the appropriate policy interventions. This makes the regional development policies justified, "allowing a dual approach whereby the single market is encouraged for its overall benefits; while regional policies are designed to foster geographic cohesion, at least until markets fully integrate" (FAO/WB, 2009). Since the 1990s, the emergence of endogenous growth theories (Romer, 1990; Aghion & Howitt, 1998) has been another key influence on planning and coordination of structural funds. It attempts to overcome the deficiency of neoclassical growth models by claiming that technological change is not exogenously determined. It is also observed that the utmost influence of human capital and technological progress on growth happens not under terms of free competition (as assumed in neoclassical growth models) but rather under imperfect market competition. "Technology, technological progress, and human resources – considered as the main forces "behind perpetually rising standards of living" (Grossman and Helpman, 1994: 24) – become critical independent variables in the model, and change differently in different territories according to the quality of human resources and to the amount of human and physical capital devoted to research and development (Romer, 1986; Lucas, 1988; Rebelo, 1991; De Long and Summers, 1991)" (Farole et al., 2009). Simply to say, technology may perhaps be an essential source for divergence. Convergence faces serious impediments due to variances among regions in the level of R&D, infrastructures and the training human capital.

3. Origins and evolution of the EU regional policy

The common regional policy keeps step with the overall multinational integration process. The Treaty of Rome states the basic principles on which the European Economic Community has been based upon, such that "the Community shall have as its task…to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion…". The preamble of the Treaty goes even further, since requires "harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions". Even with this explicit objective of the Treaty nevertheless, it did not provide the common institutions with any instruments to this end, "other than the loans of the European Investment Bank and the assessment by the Commission of regional aid granted by the Member States, with the aim notably of preventing the States outbidding one another in an attempt to attract foreign investment" (Europedia, 2011). Likewise, regions affected by the restructuring of the mining sector were provided concessional loans by the European Coal and Steel Community (ECSC). Additionally, two funds have been created, such as the European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGGF) in order to assist the implementation of common policies. They have been equally designed for employment projects and labor mobility, and upgrading the structures of farms and rural infrastructures. The 1973 first enlargement of the European Economic Community (EEC) to UK, Denmark and Ireland which coincided with the oil shock strengthen the necessity to support regional development. It was against this background that the European Regional Development Fund (ERDF) was established in 1975. The Single European Act adopted in 1986 established a basis for regional policy, i.e. economic and social cohesion proper have been made an objective along with completion of the single market. The accession of Greece (1981), Spain and

Portugal (1986) has further increased both the regional disparities and the necessity for common regional policy. To meet this challenge, the 1988 EU regional policy reform has been considered the foremost one by far. Under leadership of the Commission's President Jacques Delors, important reforms occurred in the EU budget, which reinforce the EU's role in regional development. The package of reforms, known as Delors I package, increased budget allocations for regional development, as well as introduced multiannual financial frameworks and a number of principles which, since then, remain the policy's mode d"emploi. These principles refer to: "Concentration on a limited number of objectives with the focus on the least developed regions; Multi-annual programming based on analysis, strategic planning and evaluation; Additionality ensuring that Member States do not substitute national with EU expenditure; Partnership in the design and implementation of programmes involving national, subnational and EU actors, including the social partners and non-government organisations, ensuring ownership and transparency of the interventions" (European Union Regional Policy, 2008). At the same time, five priority objectives were defined in 1988. The Delors II package (a response to Maastricht Treaty) set the new financial mechanisms for 1994-1999 budget period. The package addressed worries of rising regional divergence produced by the single market and the introduction of the single currency by doubling the resources for regional funds. Additionally, the new Cohesion fund was established for trans-national transport corridors and other infrastructures. It is intended for countries with per capita GDP below 90% of the EU average (FAO/WB, 2009). In 1997, the European Commission scheduled the "Agenda 2000", a document referring to prospects for the development of EU and its policies, as well as the profile of the future financial framework 2000-2006. It has also stepped on way to the biggest ever enlargement of the EU in 2004, that has increased its population by 20%, but its GDP by only 5%. To meet the challenge of this eastern enlargement, a package of legislation was proposed in 1998 covering the reform of the common agricultural policy, Cohesion policy reform, the pre-accession instruments and the new financial framework. In March 1999, the Berlin European Council reached an agreement on the Commission's proposals, thus permitting the implementation of the ensuing legislative and budgetary measures. The 1999 reform of EU regional policy has actually reduced the number of Structural funds objectives from six to three and the number of Community initiatives from 13 to four. "The three remaining Objectives were: Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind; Objective 2: supporting the economic and social conversion of areas facing structural difficulties, hereinafter; and Objective 3: supporting the adaptation and modernisation of policies and systems of education, training and employment" (European Union Regional Policy, 2008). The last enlargements have increasingly expanded the economic and social disparities. Translated into figures, this means that Luxemburg (in terms of per capita income) has been seven times richer than Romania, while such disparities increase at regional level (e.g. the richest region is Inner London with 290 % of EU-27's per-capita income and the poorest region is Nord-Est in Romania with 23 % of the EU average). Against this background, the 2006 reform transformed the Interreg initiative within a third objective while integrating the other initiatives into the mainstream programmes (European Union Regional Policy, 2008). The funds have been allocated to finance regional policy between 2007 and 2013 to work toward three new objectives (namely, Convergence, Regional Competitiveness and Employment and Territorial Cooperation) thus replacing the former Objectives 1, 2 and 3. The Convergence objective, which is pretty close to the previous Objective 1, has focused on speeding up the convergence of the least-developed member states and regions where GDP per capita is less than 75% of EU average. This objective has actually accounted for 81.5% of cohesion spending. The Regional competitiveness and Employment objective covers regions other than those which are the most disadvantaged in order to reinforce the regions' competitiveness, employment and attractiveness. The European Territorial Cooperation objective, based on the old European Interreg initiative, has been intended to strengthen cross-border, transnational and inter-regional cooperation. Noteworthy is to mention that the number of financial instruments devoted to cohesion has been reduced to three, i.e. the two Structural Funds (ERDF and ESF) and the Cohesion Fund. Additionally, from 2007 onwards, the Instrument for Pre-Accession Assistance (IPA) has replaced the previous EU programmes and financial instruments for candidates or potential candidate countries. IPA has been actually designed to assist such countries in preparing for possible accession including in the field of regional development and cooperation. Figures from 2011 reveal that the GDP of EU regions ranged from 29% of the then EU27 average in Severozapaden (Bulgaria) and Nord-

Est (Romania) to 321% of the average in Inner London (UK) (European Commission, 2014a). By adopting a new legislative package on regional policy at the end of 2013, the EU has repaired the funding approach for 2014-2020 to maximize the impact of the available EU funds. For the referred period, the Structural Funds and Cohesion Fund are expected to contribute towards Union's actions for strengthening economic, social and territorial cohesion, pursuing the goals, such as: (a) Investment for growth and jobs in Member States and regions; and (b) European territorial cooperation. The actions supported by the Funds shall also contribute to delivering on the Union's strategy for smart, sustainable and inclusive growth (Europedia, 2011). The level of support and the national contribution (co-financing rate) is adjusted to each region's level of development: less developed regions (GDP < 75% of EU-27 average); transition regions (GDP 75% to 90% of EU-27 average); more developed regions (GDP > 90% of EU-27 average) (European Commission, 2013a). With the aim of making sure that every euro is invested wisely, investments under ERDF are focused on four key priorities: innovation and research, information and communication technologies, enhancing the competitiveness of SMEs and the shift towards low-carbon economy. The allocations depend on the category of region. It is expected that more than half of ERDF investment between 2014 and 2020 will target the urban areas. Throughout the ESF, the regional policy is expected to contribute towards the EU priorities "in the field of employment, for example through training and life-long learning, education and social inclusion" (European Commission, 2013a). Finally, Cohesion fund investments focus on priority Trans-European transport links and environmental infrastructural projects. Regional policy funds are concentrated on limited investment priorities, with a strong emphasis on results. Finally, the EU has shaped common rules for the five European Structural and Investment Funds so as to ensure better coordination and escape certain overlaps. Each fund, in its own way, contributes to providing the growth goals of the Europe 2020 strategy.

4. Building member states? The EU support to the pre-accession process

"Enlargement serves as a key driver for political and economic reform, and moves forward at a pace which is largely determined by the candidate countries and potential candidates' respect of the Copenhagen criteria and their proven capacity to take on the obligations of membership" (GHK & Technopolis, 2011). Today's enlargement policy covers candidates or potential candidate countries from Western Balkans, in addition to Turkey. In principle, the EU nurtures close connections with the Western Balkan countries so as to secure prosperous, stable and well-functioning societies on the road towards EU integration. In 1999, European Commission set out the foundations for moving from the EU regional approach for Western Balkans to a new vision for the region's development – the Stabilization and Association Process. This process is based upon a progressive partnership aimed at stabilization and rapid transition to a market economy, the promotion of regional cooperation and prospects of EU accession. It basically rests on the contractual relations (stabilization and association agreements), trade relations (autonomous trade measures), regional cooperation and good neighborly relations and the financial assistance (instrument for pre-accession assistance). The objective that all Western Balkan countries have prospects for the future EU membership was endorsed by the European Council in Feira (2000) and confirmed by the European Council in Thessaloniki (2003). These commitments have been confirmed again by the European Council in 2010 (EU Office in Kosovo).

Meeting the accession criteria for becoming an EU member state entails the access to knowledge and expertise, but also significant efforts in terms of public investment (partially co-financed by the EU). The EU supported candidates and potential candidates financially and technically via pre-accession instruments. The main pre-accession assistance instruments set up for the period 2000-2006 were (Table 1):

- Phare (originally set up to support the reforms, as well as the political and economic transition in Poland and Hungary) has become a financial instrument of the pre-accession strategy for the Central and Eastern European countries (CEECs) which have applied for EU membership. The overhauled Phare programme supported the institutional and capacity-building, as well as the investment financing;

- Instrument for Structural Policies for Pre-Accession (ISPA) aimed at providing financial support in the field of economic and social cohesion, mainly for large-scale environmental and transport infrastructure projects in candidate countries;
- Special Accession Programme for Agriculture & Rural Development (SAPARD) was a framework for supporting agricultural and rural development in the CEECs during the pre-accession process;
- Community assistance for reconstruction, development and stabilisation (CARDS) was a financial instrument applied to the Western Balkan countries. This programme was intended to provide support for the South-Eastern European countries to enable them participating in the stabilization and association process.

Turkey has also received EU support through an array of financial instruments. Special relevance has been given to Turkey Pre-Accession Assistance (TPA). This country also took a part in the regional MEsures D'Accompagnement (MEDA) programme.

In order to increase the efficiency and coherence of aid delivery, the earlier EU programmes and financial instruments for candidates and potential candidate countries have been replaced by a single instrument, the Instrument for Pre-accession assistance (IPA) (Table 1). This instrument is intended to support beneficiaries in meeting the Copenhagen criteria and represents a tool by which the EU assists reforms in the "enlargement countries" with financial and technical help. IPA (2007-2013) was designed to provide funds through five components. Components I (Transition Assistance and Institution-Building) and II (Cross-Border Cooperation) concern all beneficiary countries, whereas Components III (regional development), IV (human resource development) and V (rural development), which specifically prepare for the implementation of the EU cohesion and rural development policies, are open to the candidate countries only.

"Benefiting from Components III to V is considered to be learning experience for the management of such EU funds upon accession based on the "learning by doing" principle. Potential candidates can benefit from similar social, economic and territorial development measures but they are implemented through Component I" (GHK & Technopolis, 2011). Hence, candidates are ready for full implementation of acquis at the time of accession, while the potential candidates benefit from support to gradually align themselves to acquis. Depending upon the component, the country context and the type of project, IPA delivery has incorporated both centralized and decentralized approaches. Under a decentralized system for the management of funds, the Commission has conferred the powers to the beneficiary. "Under this arrangement the Commission applies ex-post control only, while tendering, contracting and payments processes are the responsibility of the beneficiary, together with ex-ante controls as appropriate" (GHK & Technopolis, 2011).

Table 1: Evolution of the EU pre-accession assistance instruments

Beneficiaries	**2000-2006**	**2007-2013**
Candidate countries	Phare Phare Cross-Border Cooperation ISPA SAPARD Pre-accession financial assistance for Turkey (including TPA)	IPA
Potential candidates	CARDS	

Source: GHK and Technopolis (European Policy Evaluation Consortium), 2011, p. 9
http://ec.europa.eu/enlargement/pdf/financial_assistance/phare/evaluation/20110912_final_report.pdf

Since support provided under IPA is intended to prepare candidates and potential candidate countries to take responsibility for the management of EU financial aid, "decentralised management by the beneficiaries is the "target" management mode, to be achieved as soon as their administrative capacities are considered sufficiently developed, and the appropriate management and control systems are in place to ensure sound financial management" (European Commission, 2010). The medium term objective for candidate countries has been a fully decentralized management, i.e. with the Commission *ex post* control only (component V is that way implemented from the launch) (Table 2).

Table 2: Delivery systems used under the IPA components

Component	Delivery System
Component I	Options (as appropriate) ▪ Centralised management, especially for multi-beneficiary programmes ▪ Joint management *Medium term objective:* Decentralised implementation system
Component II	Options (as appropriate) ▪ Centralised management ▪ Shared management with a Member State, for cross-border programmes involving Member States *Medium term objective:* Decentralised implementation system
Component III Component IV	*Prerequisite:* Decentralised implementation system *Medium term objective:* Fully decentralised system (without ex-ante controls)
Component V	*Prerequisite:* Decentralised implementation system Fully decentralised system from the launch of the Component (without ex-ante control by EC)

Source: GHK and Technopolis (European Policy Evaluation Consortium), 2011, p. 14

http://ec.europa.eu/enlargement/pdf/financial_assistance/phare/evaluation/20110912_final_report.pdf

IPA II, the successor of IPA (2007-2013), will build upon the results already attained by committing € 11.7 billion for the period 2014-2020. The most significant novelty of IPA II is its strategic approach. Country Strategy Papers represent strategic planning documents for each beneficiary, complemented and broadened by a Multi-Country Strategy Paper to address regional and territorial cooperation (European Commission, 2014b). IPA II focuses on reforms in the frame of pre-defined sectors covering areas closely associated with the enlargement strategy, such as democracy and governance, rule of law or competitiveness and growth. Finally, IPA II pays special attention to results estimated though a clear framework for performance.

In essence, IPA II addresses the following policy areas (Svášek, 2017):

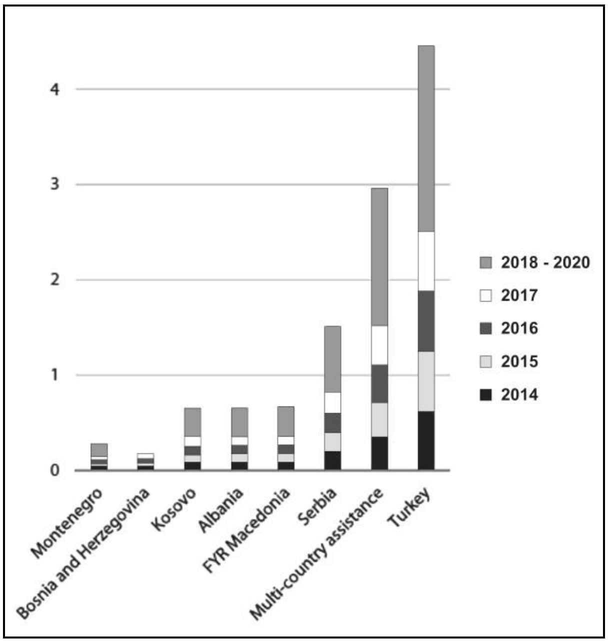
- reforms in preparation for Union membership and related institution and capacity building;
- socio-economic and regional development;
- employment, social policies, education, promotion of gender equality, and human resources development;
- agriculture and rural development;
- regional and territorial cooperation.

The IPA II Regulation lists the following specific objectives (Svášek, 2017):

- support for political reforms;
- support for economic, social and territorial development, with a view to smart, sustainable and inclusive growth;
- strengthening of the ability of the beneficiaries to fulfill the obligations arising from Union membership;
- reinforcing regional integration and territorial cooperation.

Turkey is by far the main beneficiary of the IPA II funds (€4 453.9 million for 2014-2020) (Figure 1).

Figure 1: The IPA II (2014-2020) financial allocation per country (€ billion)*



* Amounts for Bosnia and Herzegovina for the period 2018-2020 had not been decided by the end of 2014.

Source: Indicative country strategy papers (2014-2020), European Commission, 2014.

"Similarly to other country strategy papers, the biggest share of the allocation for Turkey was earmarked for 'Reforms in preparation for Union membership' (€1 581.4 million), covering policy sectors 'Democracy and governance' and 'Rule of law and fundamental rights'. It is followed by 'Socio-economic and Regional development' (€1 525.3 million), with policy sectors such as Environment, Transport and Energy, and by 'Agriculture and rural development' (€912.2 million)" (Svášek, 2017). According to financial regulation, IPA II activities are applied and managed in various ways. Under direct management, the Commission is responsible for implementing the budget. Indirect management means that budget implementation is assigned by the Commission to entrusted entities in the beneficiary countries, but the Commission preserves overall final responsibility. Under shared management, which in the case of IPA II is an option only for cross-border cooperation programs with the EU countries, implementation activities are passed on the EU member states.

5. The path to accelerate integration and convergence: EU Instrument for Pre-Accession Assistance in Macedonia

The dispute with Greece has delayed the beginnings of the Macedonia's formal relations with EU. Back in 1997, the country and the then European Community (EC) signed a Co-operation Agreement, and an agreement on trade and transport intended for promoting the economic and political cooperation. In the late 1990s, Macedonia joined the Stabilization and Association Process, as an EU's policy towards the Western Balkans. It was actually the first country in the region that signed the Stabilization and Association Agreement (SAA) in 2001 and entered into force in 2004. This complex and legally binding Agreement provides a comprehensive framework for the Macedonia's relations with the European Union. It has contributed to restructuring and adjusting the country to new conditions and revived the possibility for accelerating its social and economic development. The Republic of Macedonia applied to join the EU in 2004. In December 2005 the country was granted a candidate country status for EU membership. The European Commission first recommended opening negotiations on EU membership with Macedonia in 2009. Failure to act on the Commission's recommendation to the Council means that accession negotiations have still not been opened (European Commission, 2014c). Since 2012 the Commission has been conducting a High-Level Accession Dialogue with Macedonia. "This offers a new opportunity to focus on EU-related priorities of benefit to the country's social and economic development, including: the rule of law; the reform of public administration; freedom of expression; electoral reform and strengthening the market economy" (European Union External Action, 2014).

For the period of 1996-2001, the EU has provided extensive support to Macedonia through a number of programmes such as ECHO, Obnova, PHARE or the Emergency Response Programme. The EU has also delivered macro-financial assistance in the form of balance of payments support. In 2001 CARDS was launched to concentrate on economic, political and institutional transition. Based on the experience extended from programming and implementing EU funds in Macedonia during the period 2001-2006 one may learn the following lessons (Mrak & Tilev, 2008): implementation of assistance entailed a level of flexibility that corresponds with the country's administration standards. "In particular, challenges were faced during the implementation of assistance as regards absorption capacity, where national institutions were endowed with inadequate staff, both in terms of quality and quantity. Thus, absorption capacity must be taken into account when programming assistance and targeted support to improving the capacities of public administrations is needed" (Mrak & Tilev, 2008).; efficient implementation of pre-accession assistance has been hampered by the inadequate budgetary resources to sustain material investments or to cover regular operational expenses and limited working space to accommodate staff and equipment. "Therefore, programming on the one hand has to consider scarce budgetary resources and on the other hand, the country has to allocate sufficient resources to complement EU assistance" (Mrak & Tilev, 2008).; the national Government faced difficulties in meeting the commitments regarding staffing, budget availability or the legal approximation prior to project deployment. "Increased ownership of EU assistance to the country is essential for the effective programme implementation. It is necessary taking into account the country's own needs (e.g. as outlined in respective national documents)" (Mrak & Tilev, 2008). Nevertheless, co-financing requirements are supposed to contribute towards increased ownership, political will and coherent decision-making on behalf of the beneficiary. These issues have to be given attention during the programme planning and implementation and they must be supported by a regular dialogue between the beneficiary and the appropriate Commission services; special account has to be paid towards donor coordination in order to evade the assistance overlapping; it was not always easy to harmonize the legal instruments. Nevertheless, 'strong horizontal alignment (across sectors and stakeholders) could be achieved by improving the coordination efforts among the ministries and relevant departments" (Mrak & Tilev, 2008).

Since 2007, as mentioned above, both candidate and potential candidate countries have obtained EU support through a single Instrument for Pre-Accession Assistance (IPA). External instruments of economic and social cohesion are actually those intended for preparing the beneficiary countries to efficiently and effectively apply the cohesion policy after the EU accession. Pre-accession assistance instruments i.e. IPA under the medium-term financial perspective (2007-2013), represent *de facto* external instruments designed for financing different programmes in the field of environment, industry, infrastructure, small business development, etc. Given the country's candidate status, the aim of pre-accession aid to Macedonia is to support its efforts to meet the accession criteria and prepare the country for an effective use of cohesion policy funds once it becomes a member. Republic of Macedonia has had access to all five IPA components (Table 3). "Assistance under Components I, III, IV and V is managed by the national authorities. National authorities are in charge of procurement and contracting for IPA projects, with prior appraisal by the Commission (EU Delegation in Skopje). All funding proposals must be submitted in the first instance to the national authorities. Assistance under Component II is managed by the EU Delegation" (European Commission, 2013b).

Table 3: Macedonia - allocations by IPA component (in euros, current prices)

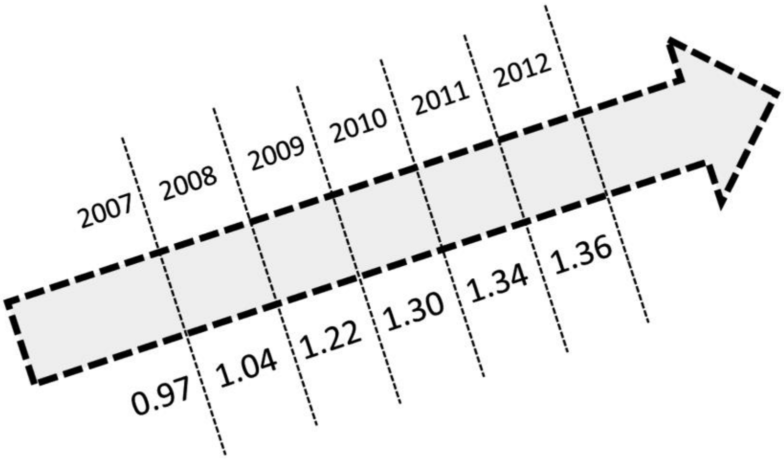
Component	2007	2008	2009	2010	2011	2012	2013
Transition Assistance and Institution Building	41,641,613	41,122,001	39,328,499	36,317,068	28,803,410	28,207,479	27,941,228
Cross-border Co-operation	4,158,387	4,077,999	4,371,501	5,067,526	5,124,876	5,183,373	5,243,041
Regional Development	7,400,000	12,300,000	20,800,000	29,400,000	39,300,000	42,300,000	51,800,000
Human Resources Development	3,200,000	6,000,000	7,100,000	8,400,000	8,800,000	10,380,000	11,200,000
Rural Development	2,100,000	6,700,000	10,200,000	12,500,000	16,000,000	19,000,000	21,028,000
Total	**58,500,000**	**70,200,000**	**81,800,000**	**91,684,594**	**98,028,286**	**105,070,852**	**117,212,269**

Source: http://ec.europa.eu/employment_social/esf/docs/final_miff_2011_2013_14_10_2009_en.pdf

One of the greatest challenges for both candidates and the "new" EU member states is the so- called absorption capacity for utilizing IPA and/or Structural Funds and Cohesion Fund. In the context of EU's finances, it is determined as the extent to which a certain country (either member or non-member) is capable to fully spend the allocated resources fully in an effective and efficient way. In principle, the absorption capacity for cohesion purposes has three main components: 1) macroeconomic absorption capacity; 2) co-financing absorption capacity; 3) administrative/institutional absorption capacity (Mrak & Tilev, 2008). Macroeconomic absorption capacity is determined and measured in terms of GDP. During the medium-term EU financial perspective (2007-2013), 4% of a certain country's GDP was set as a ceiling for EU cohesion purposes. Noteworthy is to mention that IPA funds available to Macedonia exhibit an increasing tendency with a rate higher than the one of GDP growth (Figure 2). Nevertheless, the share of such funds is far from the 4% ceiling and the Republic of Macedonia could have received almost four times higher pre-accession funds from EU (Uzunov, 2013).

Financial absorption is defined as the capacity of the recipient country to co-finance EU supported programmes and projects, to plan and guarantee these national contributions in multi-annual budgets, and to gather these contributions from multiple partners taken into a specific programme or project. Macedonia is not likely to have difficulties with the financial absorption capacity since the national co-financing for the use of IPA funds does not stand for a major budget concern. That is to say, "even in a case where the entire annual amount of pre-accession funds for Macedonia is utilized in the same year when available (without considering the n+2 or n+3 rule), the funds required from the budget of Macedonia for co-financing of projects should not be a real obstacle" (Uzunov, 2013). Legislative framework becomes one of the elements of country's capacity to absorb the EU funds. In this context and during the recent assessment of European Commission, it has been concluded that "the provisions on channelling funds from the central budget, as set out in the Law on Regional Development, have still not been fully implemented. Capital investments of ministry-run projects need to be made more transparent. The capacity for co-financing EU-funded projects at local level needs to be improved. The introduction of a medium-term budgetary framework would allow flexibility in setting budgets, and multiannual programming" (European Commission, 2014c).

Figure 2: Share of IPA funds in GDP of Macedonia (%)



Source: Uzunov, 2013, p. 20

http://www.fes.org.mk/pdf/Zbirka%20-%20Angliski%20jazik.pdf

Administrative absorption can be determined as the capacity and skill of central and local authorities to formulate appropriate plans, programmes and projects in time, make their adequate selection, organize the co-ordination among principal partners, meet the administrative and reporting requirements, and finance and supervise implementation properly, evading irregularities as far as possible (Mrak & Tilev, 2008). It is actually made up of two components, such as: demand side (i.e. the capacity is determined by the ability of project applicants to create acceptable projects) and supply side (i.e. the capacity of the country to efficiently and effectively manage the funds. The use of funds is determined by the design variables, covering structure, human resources and tools, related to the actual EU requirements) (Uzunov, 2013). Administrative absorption capacity is actually the major constrain for effective absorption of IPA funds in Macedonia. This has been also confirmed by the recent Progress Report stating that "improvements are needed in the preparation and implementation of programmes relating to the institutional framework. Interministerial coordination and stakeholder consultations also need to be improved. Management and monitoring systems need to be strengthened in order to ensure effective implementation within the timeframes allowed. The institutions involved in implementing the IPA still lack the necessary administrative capacity to absorb the available EU funds and to ensure their efficient and effective management. Motivation and retention of staff and working conditions remain an issue" (European Commission, 2014c). It is therefore of greatest importance to tackle this issue properly since the lack of an adequate absorption capacity will expose the country at risk not to effectively absorb the EU funds at the time of becoming an EU member (Republic of Macedonia, Ministry of Finance, 2009).

As a final point, delays in procurement under the decentralized implementation system led to a situation in which the country was not in a position to absorb €117 million of IPA funds. "The overall de-commitment figures are still expected to rise as the measures taken by the national authorities to improve management of IPA assistance have not yet shown any tangible results" (European Commission, 2016). Under IPA II, Macedonia was allocated €664 million to carry out reforms. The second IPA II annual program adopted in November 2015 was significantly reduced due to lack of readiness and deficiency in political will to draw up a credible and relevant sector budget support program in public financial management (European Commission, 2016).

6. Conclusion

EU regional policy gives voice to solidarity with less developed countries and regions. With each new country that joins, the EU has become a more and more heterogeneous group that exhibits considerable regional differences. Hence, this policy aims at reducing existing regional disparities and preventing any further regional imbalances in the EU by using financial instruments of the Union to transfer European resources towards the problem regions. If left in place, such disparities may challenge some of the EU cornerstones, viz. the huge single market and the single currency. That is to say, both the theory and the economic and political integration process in Europe justify the necessity to reduce regional disparities in EU. Yet, the common regional policy keeps pace with the overall multinational integration process and thus it has been gradually shaped and improved. At the same time as the 2006 Structural Funds reform, a certain simplification and rationalization was made in the EU pre-accession funding so as to improve the efficiency of the Union's External Aid. Pre-accession assistance instruments, i.e. IPA in the medium-term financial perspective 2007-2013, are de facto "external" instruments of economic and social cohesion which prepare the beneficiary countries to efficiently and effectively apply the EU cohesion (regional) policy after accession. Similar to the other candidates, Macedonia is eligible for substantial pre-accession funding, i.e. since the IPA beginnings in 2007, the country has had access to all five IPA components. The administrative capacity to plan, design and implement projects remains an issue of concern, in addition to the principles on sound financial management. Hence, the country is at risk of continuing to be unable to use significant IPA funds. Under IPA II, Macedonia was allocated €664 million to implement reforms. In effect, the second IPA II annual program was significantly reduced due to lack of readiness and political will to draw up a credible and relevant sector budget support program in public financial management.

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